

Natural Sciences and Engineering Research Council of Canada Quarterly Financial Report for the Quarter Ended September 30, 2013

Statement Outlining Results, Risks and Significant Changes in Operations, Personnel and Programs

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1. Introduction

The Natural Sciences and Engineering Research Council of Canada (NSERC) was established in 1978 by the *Natural Sciences and Engineering Research Council Act*, and is a departmental corporation named in Schedule II of the *Financial Administration Act*. NSERC's purpose is to help make Canada a country of discoverers and innovators for the benefit of all Canadians, by supporting postsecondary students and postdoctoral fellows in their advanced studies, promoting discovery by funding the research programs of academic researchers, and stimulating partnerships between academia and industry. Further information on the NSERC mandate and program activities can be found in Part II of the Main Estimates.

This Quarterly Financial Report (QFR) has been prepared by management as required by section 65.1 of the *Financial Administration Act* and in the form and manner prescribed by the Treasury Board. This quarterly report should be read in conjunction with the Main Estimates and Supplementary Estimates for 2013-14.

Basis of Presentation

This quarterly report has been prepared by management using an expenditure basis of accounting. The accompanying Statement of Authorities includes NSERC's spending authorities granted by Parliament and those used by the department, consistent with the Main Estimates and Supplementary Estimates for the 2013-14 fiscal year. This quarterly report has been prepared using a special purpose financial reporting framework designed to meet financial information needs with respect to the use of spending authorities.

The authority of Parliament is required before monies can be spent by the Government. Approvals are given in the form of annually approved limits through appropriation acts or through legislation in the form of statutory spending authorities for specific purposes.

As part of the parliamentary business of supply, the Main Estimates must be tabled in Parliament on or before March 1 preceding the new fiscal year. Budget 2012 was tabled in Parliament on March 29, after the tabling of the Main Estimates on February 28, 2012. As a result, the measures announced in Budget 2012 could not be reflected in the 2012-13 Main Estimates.

In fiscal year 2012-13, frozen allotments were established by Treasury Board authority in departmental votes to prohibit the spending of funds already identified as savings measures in Budget 2012. In 2013-14, the changes to departmental authorities were reflected in the 2013-14 Main Estimates tabled in Parliament.

When Parliament is dissolved for the purposes of a general election, section 30 of the *Financial Administration Act* authorizes the Governor General, under certain conditions, to issue a special warrant authorizing the Government to withdraw funds from the Consolidated Revenue Fund. A special warrant is deemed to be an appropriation for the fiscal year in which it is issued.

NSERC uses the full accrual method of accounting to prepare and present its annual departmental financial statements that are part of the departmental performance reporting process. However, the spending authorities voted by Parliament remain on an expenditure basis.

This quarterly report has not been subject to an external audit or review.

2. Highlights of Fiscal Quarter

Statement of Authorities

Available Authorities

As of September 30, 2013, NSERC's total available authorities for 2013-14 amount to \$1,050 million. The changes in available authorities are the result of previous federal budget announcements that impact both the operating authorities (vote 75), and the grants and scholarships program authorities (vote 80) in the current fiscal year. To date, for 2013-14, these changes resulted in a decrease in total authorities of \$9.3 million (0.9 %) over the prior year, of which \$4.8 million (52% of the total changes) represented a decrease in NSERC's grants and scholarships programs while the authorities for operating and employee benefits expenditures decreased by \$4.5 million.

In this quarter (year to date), total available authorities incorporate the elements of the 2013-14 Supplementary Estimates (A) (SEA). The SEA is the first of three opportunities to approve changes in NSERC's authority levels for the current fiscal year (other than transfers from Treasury Board votes). The vast majority of these changed elements are the result of previous federal budget announcements, while the balance relates to technical adjustments from Treasury Board and transfers between departments and agencies for specific initiatives. The future and ongoing impacts of SEA elements will be included in NSERC's 2014-15 Main Estimates for the next fiscal year. For the ongoing elements from previous federal budget announcements or transfers between departments and agencies, only the net difference in the level of funding between the two fiscal years is presented in the explanation below. The net changes, amounting to the \$9.3 million decrease in total available authorities between the current and previous fiscal year, are mainly comprised of the following elements:

- an increase of **\$15.0 million** in the Research Partnerships Program to support the Strategy for Partnerships and Innovation to increase innovation and industrial investment in R&D in Canada (Budget 2012);

- an increase of **\$9.3 million** in the Business-Led Networks of Centres of Excellence program to make the program permanent as part of an initiative to link innovative businesses to Canada's world-class researchers, helping to create and sustain knowledge-based jobs (Budget 2012);
- an increase of **\$7.0 million** in the Industrial R&D Internship program to make the program permanent as part of an initiative to link innovative businesses with students to support the entrepreneurial advantage (Budget 2007);
- an increase of **\$4.7 million** for the Centres of Excellence for Commercialization and Research program to create a more effective and efficient way to identify commercialization opportunities (Budget 2007);
- an increase of **\$1.0 million** in the ramp up of funding to the College and Community Innovation program (Budget 2011);
- an increase of **\$0.7 million** as part of the collective bargaining agreement;
- an increase of **\$0.2 million** due to a timing difference for net grant transfers between federal departments made to National Defence to support the Canada Research Chairs of federally-funded academic research at the Royal Military College;
- a decrease of **\$30.0 million** to reduce government spending and find efficiencies as part of the government's efforts to return to a balanced budget (Budget 2012);
- a decrease of **\$14.0 million** for the Canadian Light Source (CLS) initiative due to the sun-setting of program funding (Budget 2008);
- a decrease of **\$2.2 million** due to a timing difference on the approval of the operating budget carry-forward in comparison with the previous year;
- a decrease of **\$0.9 million** in the Networks of Centres of Excellence program to support the Canada-India Research Centre of Excellence initiative that falls under the health research mandate; and
- a decrease of **\$0.1 million** in the Networks of Centres of Excellence program to support the Canada-India Research Centre of Excellence initiative that falls under the social sciences and humanities mandate.

Authorities Used in the Second Quarter

This departmental QFR reflects the results of the current fiscal period in relation to the 2013-14 Main Estimates and the Supplementary Estimates (A), for which full supply was released by Parliament on June 20, 2013.

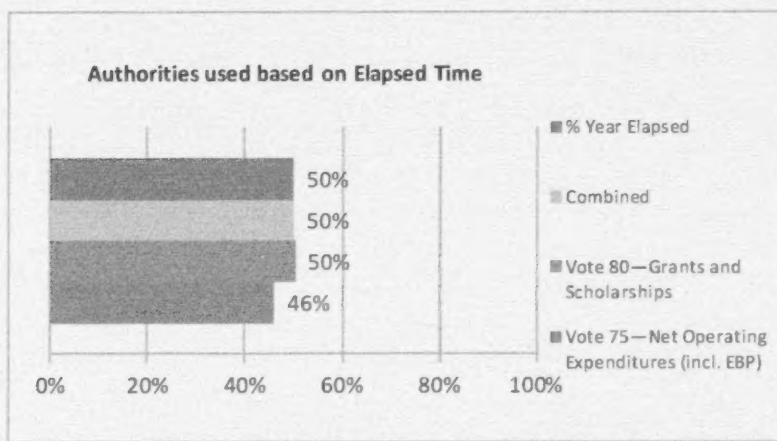
The total authorities used during the second quarter of 2013-14 amounted to \$234.5 million (22% of the total available authorities; 22% of total authorities used for grants and scholarships programs and 23% for operating expenditures and employee benefits). The expenditures are \$9.2 million less than at the end of the same quarter in the previous fiscal year. This decrease is principally related to grants and scholarships programs. The decrease in grants and scholarships expenditures (\$6.2 million) is mainly due to the decrease in a portion of the funding to CLS (as described in section available authorities) and the decrease in operating expenditures and employee benefits (\$3 million) is due to the non-recurring cash-out of some benefits by NSERC employees in 2012-13, as per governmental changes in the accumulation of severance pay in the approved Terms and Conditions of Employment.

Grants and scholarships payments vary between periods due to the cycle and results of the peer-reviewed program competitions, and the multi-year award profiles. The operating expenditures cover personnel and other operating expenses required to support the delivery of the grants and scholarships programs. Expenditures related to the Employee Benefit Plan are accounted for separately in statutory

authorities. Although the majority of personnel expenditures and other operating costs are incurred in a consistent manner throughout the fiscal year, the balance of expenditures, including temporary employees hired for the peak competition season and travel costs for peer reviewers, occur in direct conjunction with the program cycle and are demand driven. As a large proportion of the program competitions occur in the final quarter of the fiscal year, the operating expenditures in each of the first three quarters are typically less than 25% of the annual operating available authorities.

Authorities Used Year-to-Date

Total authorities used cumulatively during the first six months of the 2013-14 fiscal year represented \$525.3 million (50% of the available authorities) and represents a \$0.3 million decrease from the previous fiscal year. This overall decrease is due to the \$2.9 million reduction in operating and employee benefit expenditures mainly related to non-recurring cash-out of some benefits by NSERC employees in 2012-13 as per governmental changes in severance pay accumulation. This decrease is offset by an increase of \$2.6 million in grants and scholarships authorities used during the first two quarters of 2013-14 related to an increased take-up in certain programs that are part of the Strategy for Partnerships and Innovation (SPI). The proportion of the cumulative grants and scholarships authorities used in the first six months of the fiscal year has been 50.2% in comparison with 49.7% in the previous fiscal year. NSERC spent 46.1% of its operating authorities and employee benefits plan in the current fiscal year, compared to 47.8% in 2012-13.



Statement of Departmental Budgetary Expenditures by Standard Object

Variation in Amounts Available for Use in 2013-14

As described in the Available Authorities section, NSERC's Parliamentary authorities have been decreased by \$9.3 million for 2013-14 to date over the prior year, attributed to the decrease in authorities for transfer payment programs (\$4.8 million) and the decrease in authorities available for operating and employee benefit expenditures (\$4.5 million).

Transfer Payments Expenditures (Grants and Scholarships)

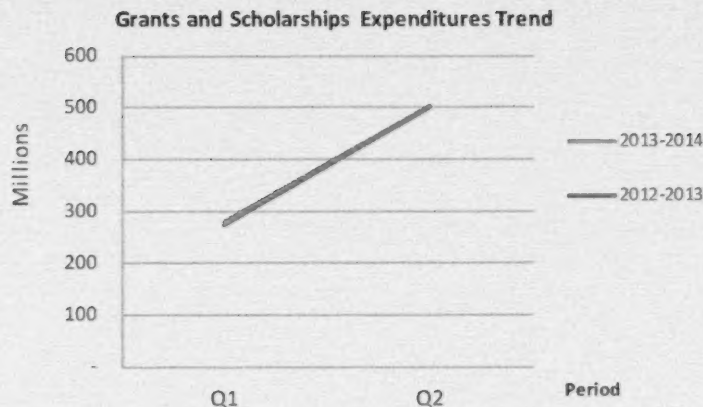
Second Quarter Grants and Scholarships Expenditures

Transfer payments represent approximately 95.5% of NSERC's available authorities. Variations occur in transfer payment expenditures between quarters due to the nature of program cycles. During the second quarter of 2013-14, NSERC's transfer payment expenditures have decreased by \$6.2 million compared to the same quarter of the previous fiscal year. The main factors in this decrease are an \$11 million decrease in the Major Resources Support Program (CLS budget reduction for sun-setting funding and \$3 million moratorium due to the Council's change of priorities following the government's efforts to return to a balanced budget) offset by a \$4.8 million increase related to the expanded program authorities and increased take-up in the Collaborative Research and Development Grants (part of SPI) during the second quarter.

Year-to-Date Grants and Scholarships Expenditures

At the end of the second quarter, NSERC spent \$2.6 million more in grants and scholarships than what had been spent by the end of the same quarter in the previous fiscal year. The main factors in the net increase over the prior year include:

- An increase of **\$9.5 million** over the previous year related to expanded program authorities and the related increased take-up in certain programs in the first and second quarters for the programs related to SPI (\$6.5 million in Collaborative Research and Development Grant and \$3 million in Engage Grants).
- An increase of **\$3.5 million** for the Collaborative Research and Training Experience Program (CREATE) due to the number of new applications increasing by 25.6%. A total increase of \$5 million in expenditures is expected by the end of the fiscal year.
- An increase of **\$3.4 million** in Centres of Excellence for Commercialization and Research Program due to a timing difference between funds received in SEA this year in comparison with Supplementary Estimates (B) (SEB) last year.
- A decrease of **\$11.0 million** in the Major Resources Support Program mainly due the reduction of the CLS budget and the moratorium of the program due to the Council's change of priorities following the government's efforts to return to a balanced budget (\$3 million ramp-down).
- A decrease of **\$2.8 million** in Strategic Network Grants Program due to a ramp-down of the program resulting from the Council's change of priorities following the government's efforts to return to a balanced budget.

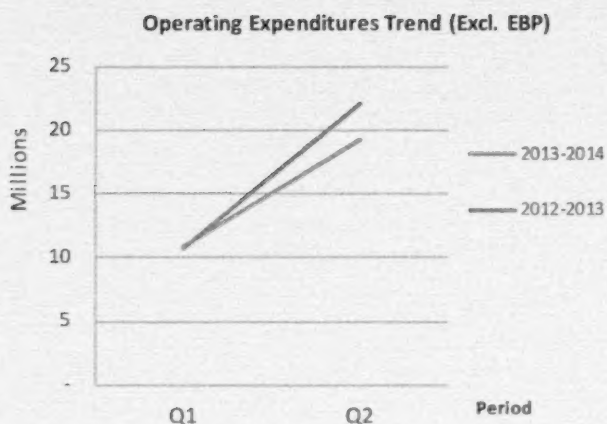


Second Quarter and Year-to-Date Personnel Expenditures

Personnel expenditures in support of program delivery account for the largest proportion of NSERC's planned operating expenditures (over 73% of available operating authorities and planned operating expenditures for 2013-14). In comparison with the prior fiscal year, the personnel expenditures for the first six months of the fiscal year of 2013-14 decreased by \$2.9 million (14%), occurring in the second quarter. This decrease is the result of governmental changes related to the cessation of severance pay accumulation for voluntary departures in the NSERC Terms and Conditions of Employment, where some non-recurring benefits to employees were paid out in 2012-13. Treasury Board Secretariat has compensated NSERC for these expenditures.

Second Quarter and Year-to-Date Non-Personnel Operating Expenditures

Non-personnel operating expenditures include all other operating costs related to the support of program delivery, a significant proportion of which relates to program competitions that take place predominantly during the latter quarter of the fiscal year. The overall non-personnel expenditures for the first six months of the fiscal year 2013-14 were generally in line with the same period of the previous year, with a similar overall trend in the second quarter. However, there is a notable increase occurring in professional and special services and repair and maintenance expenditures due to increasing technological advancement measures taken in line with the government's efforts to return to a balanced budget through the creation of enhancement efficiencies. These increases have been offset by decreases in acquisition of machinery and equipment expenditures in comparison with the prior fiscal year.



3. Risks and Uncertainties

Funding and Program Delivery Risk Factors

Through the Council's most recent corporate risk identification exercise, the risks that have a potential financial impact or that deal with financial sustainability have been assessed. The impact on NSERC and the planned mitigation strategies related to these risks are discussed below.

External Risk Factors

NSERC is funded through annual parliamentary spending authorities and statutory authorities for program transfer payments (grants and scholarships programs) and its supporting operating expenditures. As a result, its program activities and operations are impacted by any changes to funding approved through Parliament. Accordingly, delivering programs can be affected by factors such as the economic and political climate, technological and scientific development, and evolving government priorities, which impact approved resource levels (total available authorities).

Research and innovation are part of global trends; therefore participation in our programs is not only influenced by the Canadian context, but also by initiatives and opportunities worldwide. Formal communications and external relation strategies are developed by NSERC to ensure that stakeholder relationships and expectations are managed effectively and that NSERC has fulfilled the research and innovation needs.

There is also the risk that NSERC fails to achieve its mandate and strategic outcomes. To mitigate this risk, an integrated planning process was launched by NSERC in 2012. This process will serve as the foundation for NSERC to plan all aspects of its business in an integrated manner and, to align priorities and resources accordingly.

Internal Risk Factors

NSERC is a knowledge-based organization that relies on maintaining its talented and committed workforce to deliver its programs. To retain its valuable human resources and their corporate memory, NSERC is continuing the implementation of a People Strategy that outlines the organization's commitments and action plan for developing talent and for building and sustaining a thriving and

successful workplace and work culture. NSERC's financial restraints are challenging the ability to hire the skilled resources needed to successfully achieve the transformation and realignment agendas to meet tomorrow's needs. Potential consequences could include workload management issues and succession planning challenges.

NSERC is modernizing its business processes to adapt more efficiently to internal changes and to improve external client service.

The budgetary pressures have required internal reductions and reallocation measures. These pressures are compounded by the operational requirement to support an increased and broadened program base while processing an increasing number of applications and absorbing inflationary costs on operating expenditures within limited or decreasing operational envelopes. NSERC is also managing the requirement for the implementation of modernized technology solutions to better support program delivery.

Thus far, NSERC has achieved the reduction of its operating pressures through economies of scale achieved by the shared administrative service arrangements with the Social Sciences and Humanities Research Council of Canada (SSHRC), corporate-wide prioritization and harmonization or reduction of activities, internal reallocations, and a focus on streamlining and generating efficiencies wherever possible. An established budgetary process with regular in-year budget reviews and formal reallocations for emerging priorities approved by senior management supports this endeavour. NSERC is also undertaking a revision of its operating and grant delivery systems and processes to generate further efficiencies and future savings.

NSERC is a lean agency in terms of operating funding provided to deliver existing and expanding programs (less than 5% of total resources). NSERC is pursuing business transformation to address restraint measures and funding cuts, and to enhance resource decision-making.

4. Significant Changes Related to Operations, Personnel and Programs

There were a number of important changes in comparison with the previous fiscal year that relate to operations, personnel and programs. These include the impacts generated by NSERC's previously increased available program authorities, which resulted in expanded Strategy for Partnerships and Innovation program dimensions. Another prevalent influence involved the continuing implementation of government-wide operating budget constraint measures and the government's efforts to return to a balanced budget, for which details are described in the section below. The federal Budget 2013, tabled in March, included funding announcements with additional program dimensions that are being implemented by NSERC, following Treasury Board and Parliament approvals, over the course of the fiscal year.

5. Budget 2012 Implementation

This section provides an overview of the cost containment and savings measures announced in Budget 2012 that are being implemented in order to refocus government and programs; make it easier for Canadians and business to deal with their government; and, modernize and reduce the back office.

Through the Economic Action Plan 2012, NSERC has achieved reductions and savings of approximately \$30 million in 2013-14 and ongoing. Over Budget 2012 and Budget 2013, the Government of Canada reinvested \$30 million, annually on an ongoing basis, in support of the Strategy for Partnerships and Innovation, making the net impact on NSERC's overall budget neutral for 2013-14.

NSERC examined all of its activities and investments, with the intention of streamlining operations and ensuring maximum efficiencies.

In realizing operating budget reductions and savings, a number of measures are being implemented to generate greater efficiency and effectiveness, including an enhanced use of technological advancements, such as teleconferencing and virtual meetings. A rigorous and cohesive approach to priority setting, project planning and training will further help the Council meet its goals.

Expenditures in the second quarter of 2013-14 are lower than in the same period from the previous fiscal year. The difference between the two fiscal years is due to the sun-setting of a portion of the funding to Canadian Light Source (as described in section available authorities) and the non-recurring cash-out of some benefits by NSERC employees in 2012-13 due to the cessation of accumulation of severance pay benefits for voluntary departures. The above-mentioned reasons are not related to government's efforts to return to a balanced budget (budget 2012). Excluding the non-recurring severance benefits cash-out effect, the operating expenditures have generally remained the same as in the comparable period of the prior year, which reflects savings equivalent to the inflationary pressures.

There was no incremental funding provided to NSERC to implement the cost savings measures.

There are no specific financial risks or uncertainties related to these savings.

Approved by:

Originally signed by:

Janet Walden
Chief Operating Officer,
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Originally signed by:

Jaime W. Pitfield
Vice-President and
Chief Financial Officer, NSERC

Ottawa, Canada

November XX, 2013

6. Statement of Authorities for the Quarter Ended September 30, 2013

Natural Sciences and Engineering Research Council of Canada

Quarterly Financial Report

For the quarter ended September 30, 2013

	Fiscal Year 2013-2014			Fiscal Year 2012-2013		
	Total available for use for the year ending March 31, 2014*	Used during the quarter ended September 30, 2013	Year-to-date used at quarter-end	Total available for use for the year ending March 31, 2013*	Used during the quarter ended September 30, 2012	Year-to-date used at quarter-end
<i>(in thousands of dollars)</i>						
Vote 75—Operating Expenditures	42,070	9,716	19,198	46,192	12,691	22,030
Vote 80—Grants and Scholarships	1,002,431	223,547	503,512	1,007,251	229,702	500,925
Budgetary Statutory Authorities—Employee Benefits Plan	5,120	1,280	2,560	5,469	1,333	2,666
Total Budgetary Authorities	1,049,621	234,543	525,270	1,058,912	243,726	525,621

* Includes only authorities available for use and granted by Parliament at quarter-end.

7. Departmental Budgetary Expenditures by Standard Object (unaudited) for the Quarter ended September 30, 2013

Natural Sciences and Engineering Research Council of Canada

Quarterly Financial Report

For the quarter ended September 30, 2013

(in thousands of dollars)

	Fiscal Year 2013-2014			Fiscal Year 2012-2013		
	Planned expenditures for the year ending March 31, 2014	Expended during the quarter ended September 30, 2013	Year-to-date used at quarter-end	Planned expenditures for the year ending March 31, 2013	Expended during the quarter ended September 30, 2012	Year-to-date used at quarter-end
Expenditures						
Personnel	34,549	9,016	17,937	36,451	11,966	20,848
Transportation and communications	3,523	491	872	3,789	502	880
Information	324	82	126	413	55	83
Professional and special services	5,985	1,028	1,891	7,196	768	1,624
Rentals	419	61	137	392	74	132
Repair and maintenance	710	226	587	1,105	69	418
Utilities, materials and supplies	274	11	102	429	9	83
Acquisition of machinery and equipment	1,406	81	106	1,886	581	628
Transfer payments	1,002,431	223,547	503,512	1,007,251	229,702	500,925
Total Net Budgetary Expenditures	1,049,621	234,543	525,270	1,058,912	243,726	525,621